Currency Manipulation

ISSUE:

Countries that trade with the U.S. and manipulate their currencies distort trade flows and fuel trade deficits by inflating the cost of U.S. exports and deflating the cost of U.S. imports. This unfair trade practice in turn displaces U.S. jobs. As an example of the kind of damage this practice can cause, the Economic Policy Institute found that 2.4 million U.S. jobs were lost between 2001 and 2008 due to China’s currency manipulation.

While the Chinese government is the most widely known currency manipulator, many countries engaging in international trade with the U.S. maintain artificially low currencies. According to the Peterson Institute for International Economics, several countries party to the now rejected Trans-Pacific Partnership were well-known currency manipulators including Japan, Vietnam, Singapore, and Malaysia.

BACKGROUND:

Currency manipulation is illegal under WTO rules because it gives countries an unfair advantage when they export and serves as a barrier to imports. This illegal activity has been blamed by leading economists as one of the core reasons for the massive loss of U.S. manufacturing jobs in recent decades. Currency manipulation serves as a de facto subsidy that disadvantages every U.S. manufacturer and service provider in markets both at home and abroad.

In a policy brief, the Peterson Institute found that currency manipulation by at least 20 countries totals almost $1 trillion annually, which has shifted trade balances by more than $500 billion per year from deficit to surplus countries.¹ These actions have directly increased U.S. imports, suppressed U.S. exports, and exacerbated the unemployment rate.

There are three principle actions the U.S. government could take to address currency manipulation by our trading partners:

1. The U.S. Department of Treasury has the authority to name China and other nations as currency manipulators;

2. Congress can enact legislation that penalizes currency manipulation, and;
3. Congress and U.S. trade negotiators can insist on anti-currency manipulation provisions in all U.S. free trade agreements.

POSITION:

NCTO opposes foreign governments undervaluing their currencies through foreign exchange markets. NCTO believes that currency manipulation distorts the global marketplace and puts countries like the United States at a disadvantage when trading with other nations that artificially undervalue their currencies. Consequently, the U.S. government and Congress should use their respective authority and influence to deter and counteract harmful currency manipulation.